Voluntary Carbon Standard 2011: innovations from the main voluntary offset standard

The Voluntary Carbon Standard (VCS) is the main quality label on the voluntary carbon markets. Its new specifications, VCS 2011, are introducing several innovations in terms of procedures and coverage, which may provide food for thought regarding future changes to the Clean Development Mechanism (CDM). A public consultation regarding these new specifications has been held.

Background: the VCS, the primary voluntary carbon offset standard

Voluntary offset standards: combining innovation and quality

A number of companies and individuals are funding emission reduction projects without having a regulatory obligation to do so. When the carbon credits awarded are cancelled as a proportion of all or part of the emissions linked to their business activities, this is called voluntary carbon offsetting.

Voluntary carbon offset buyers require a guarantee for the quality of the emission reductions that are being sold to them: 93% of the credits traded on the voluntary markets in 2009 were certified. A standard is a certification awarded to projects by a private or public body that ensures that specifications are complied with. In terms of the number of credits delivered, the main global standard is the UNFCCC’s Clean Development Mechanism (CDM). However, this standard is mainly used in the compliance carbon markets – like the European Trading Scheme – as the procedures involved are long, cumbersome and costly. In fact, it is only used for 0.4% of voluntary credits.

The four main voluntary offset standards are:

- the Voluntary Carbon Standard (VCS), a not-for-profit organisation founded in 2005 by the International Emissions Trading Association (IETA), the Climate Group and the World Business Council for Sustainable Development (WBCSD): 33% of voluntary credits;
- the Californian Action Registry (CAR) in the State of California: 29%;
- Intercontinental Exchange’s Chicago Climate Exchange (CCX): 11%;
- the Gold Standard (GS), a not-for-profit association backed mainly by the German Ministry for the Environment (BMU), WWF-Netherlands and the Renewable Energy and Energy Efficiency Partnership (REEEP): 7 %.

The specifications and the procedures of these standards are closely based on those of their regulatory cousin, the CDM. However, two advantages have enabled them to introduce innovative provisions:

- a much simpler governance structure than that of the CDM Executive Board, which reports to the COP/MOP. This feature enables them to respond decisively and forcefully;
- the small size of the voluntary market, which amounted to €250 million in 2009 compared with €15 billion for the CDM, makes it an excellent experimentation platform. Regardless of whether they are good or bad, the large-scale consequences of the standards’ decisions are limited from a financial and environmental point of view.

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The VCS today: which projects, and at what price?

Localisation and project types

The VCS has been used as an alternative tool for valuing emission reductions by project developers who are hampered by the CDM’s delays: many projects have delivered Voluntary Carbon Units (VCUs), the VCS credit, while waiting to be registered by the CDM Executive Committee. This “pre-CDM” phenomenon explains the high number of voluntary projects registered in Asia among the VCUs that have been delivered up until now. The same principle has been applied for Joint Implementation (JI) projects in Europe, where the credit delivery period only began on January 1st 2008. Some projects were thus able to deliver VCUs for emission reductions prior to that date. In terms of project types, the first forest VCUs have only just been generated by a reforestation project in Tanzania.

Figure 1 – Breakdown of VCUs issued as at September 23rd 2010 by continent and technology (total: 42 million VCUs for 459 projects)

![Breakdown of VCUs issued as at September 23rd 2010 by continent and technology](image)

**Source:** VCS Project Database, September 2010.

VCU Pricing

Since 2008, the average VCU price has been strongly affected by “pre-CDM” credits, where the marginal production cost is almost nil. Indeed, projects have often been assessed from a financial perspective without including the possibility of an early valuation in the form of VCUs. As with all voluntary credits, there are significant price discrepancies, given the poor market liquidity and the significance of the project that underlies the credit in creating the price. This means that prices in excess of €20 per VCU are recorded every year.

Figure 2 – Average prices and volumes on the VCU market

![Average prices and volumes on the VCU market](image)

**Source:** Ecosystem Marketplace & New Energy Finance.

Methodologies developed

The methodologies that have been approved or are undergoing approval reflect the future of the VCS. 50% of them apply to the agricultural and forestry sectors.

Figure 3 – Number of specific VCS methods approved or undergoing approval as at September 23rd 2010 (total: 30)

![Number of specific VCS methods approved or undergoing approval as at September 23rd 2010](image)

**N.B:** methods that affect two or three sectors are accounted for on a 50% or 33% basis in each sector. **Source:** VCSA, September 2010.
The innovations of the VCS

Compared with the framework established by the CDM, the main innovating features of the VCS fall into three categories: a change of tools, a broadening of the sectoral scope and simplified procedures. According to the estimates of Guigon et al. (2009), these simplified procedures enable costs and delays linked to certification to be cut in half.

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<th>Tool changes</th>
<th>CDM</th>
<th>VCS</th>
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| Additionality (is carbon financing necessary for the launch of the project?) | “Project test”, using the CDM additionality tool | A “project test” is a possibility, but two other options are available:  
- a test comparing the project’s performance to a sectoral performance benchmark;  
- a test that compares the technology used by the project to a sectoral technology benchmark. |
| Permanence (what happens to a carbon credit if the wood on which it is based has been burnt?) | Generation of lower-value, temporary credits | Generation of permanent credits, guaranteed by a common compulsory insurance stock fed by a percentage of the credits set aside for all projects at risk of non-permanence. The quantity of credits charged for this insurance depends on the risk profile of the project, which is reassessed at each verification stage. |
| Methodologies | The Executive Board is responsible for merging the methodologies submitted to it, which are often very specific to a particular project | To avoid the proliferation of over-specific methodologies, any new methodology must show that simply amending an existing methodology is not sufficient to cover the type of project that is being contemplated. In addition, the VCS allows the use methodologies approved by the standards that it recognises, such as the CDM and the CAR. A copyright mechanism has been implemented to offset the costs linked to developing a methodology. |

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<th>Broadening the sectoral scope</th>
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<th>VCS</th>
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| The following are excluded: | The following projects are specifically authorised:  
- deforestation avoidance,  
- improved forest management,  
- sequestration in agricultural soils,  
- sequestration in wood products. |  |
| - projects relating to the use of land, with the exception of reforestation;  
- nuclear power projects | The only explicit exclusions involve HFCs linked to the production of HCFC-22 in developed countries and projects that we can reasonably assume have generated emissions with the sole aim of subsequently reducing them. |

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<th>VCS</th>
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<td>Validation marks the beginning of the project. Verification enables the obtention of credits for the time that has elapsed since approval.</td>
<td>A project can be approved two years after its launch (five years in the case of a forestry project). This provision enables the validation and verification to be carried out simultaneously.</td>
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<th>CDM</th>
<th>VCS</th>
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<td>The same auditor cannot be responsible for both validation and verification.</td>
<td>The project backer can call upon the same auditor for validation and verification.</td>
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<th>VCS</th>
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<td>Written agreement of the Designated National Authority (DNA) is required, as is an environmental impact assessment.</td>
<td>The project developer is not required to appeal to local authorities or perform an environmental impact assessment, except where there is a legal requirement in the country concerned.</td>
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News: the main innovations introduced by VCS 2011

The main innovations introduced in the provisional version of VCS 2011 are listed below.

Methodologies

- Offset mechanism: to offset the cost of developing a methodology, a copyright system has been introduced.
- Generalising methodologies: several rules have been put in place to avoid the proliferation of methodologies that are over-specific, and to stimulate the development of tools that can be used in several types of projects.
- Authorised exceptions: the “monitoring” plan and the system for measuring emissions reductions may be revised with regard to the methodology and/or the validated PDD without recourse to a new validation of the document concerned.

Programmatic projects

- Rules have been defined for the execution of programmatic projects, which enable “occurrences” or sites to be added to the project at each verification stage.

Agriculture, Forestry, and Other Land Uses (AFOLU)

- Project categories: the level of detail for project categories has been increased. This improved categorisation includes guidelines on a large number of technical points (taking activities and or/gases into account, calculating the long-term forest stock, etc.)
- Non-permanence risk: the definition of permanency, namely a 100-year sequestration, has been clarified. In addition, detailed guidelines provide a framework for auditors to assess risk.

Timetable

- October 10th 2010: end of the public consultation period;
- Late 2010: registration of the first REDD projects by the VCS;
- Mid-2011: the definitive version of VCS 2011 will enter into force.

To find out more...

- Voluntary Carbon Standard website: http://www.v-c-s.org/